



ASRS REPORT

ARIZONA STATE RETIREMENT SYSTEM

Paul Matson, Director
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March 2, 2007

This report provides a briefing of news and notices important to our members, retirees and employer partners, as well as other interested parties. It is produced by the ASRS on a periodic basis and posted to the ASRS website. If you would like to receive an email notice when the next issue is posted, and you are not already on our email list, please contact us at weeklyreport@azasrs.gov, and provide your name, email address, telephone number and title and organization, if applicable.

ASRS News

The Arizona Republic recently printed a letter to the editor in which the ASRS was labeled as being “in trouble.” We replied with a statement from ASRS Director Paul Matson in an effort to “set the record straight.” So far, the Republic has yet to print our response. We believe you should know the truth. Below is our response.

Editor:

“A Reader’s Voice” article on the editorial page of The Arizona Republic (“State employees’ retirement fund in trouble,” Feb. 20, 2007) provided inaccurate information. As Executive Director for the Arizona State Retirement System (ASRS), allow me to address these statements, otherwise, they may be perceived as fact when in reality they are not.

In summary, the Arizona State Retirement System, the largest public retirement plan in Arizona, is financially sound, has an excellent investment program, has provided strong benefits and significant benefit increases, and has commendable financial reporting – all of which have been externally and empirically verified.

First, the financial health of the ASRS is sound, as evidenced by three external actuarial valuations and audits. The funded status of the pension plan is 84.3 percent and the collective conclusion is that the ASRS is funded appropriately and well managed. The last actuarial audit concluded that “the results of this audit are quite favorable, and indicate that the procedures used by the ASRS and its consulting actuary are appropriate and reliable in determining the Plan’s actuarial funding levels.” It is also worth noting the Public Pension Coordinating Council awarded a Pension Standards Award for 2006 to the ASRS for meeting professional standards for plan design and administration.

Second, the \$26 billion ASRS investment fund has consistently achieved very favorable investment returns, including an annual rate of return for 2006 of 14 percent, well above the industry standard actuarial benchmark of 8 percent. The three-year, five-year, 10-year, and inception average rates of return are 10.6%, 8.2%, 8.9%, and 11.0% - again all significantly above the industry standard benchmark. These enviable returns include the significant downturn in the markets that hit investors from 2001 to 2003. The ASRS continues to be one of the top performing public pension plans in the state over consecutive periods.

Third, ASRS members have very strong benefits and I am pleased to say have received significant benefit enhancements over many years. Specifically an average retiree received increases over the 10-year period ending June 30, 2005 that amounted to approximately 50 percent. This included what are referred to as Permanent Benefit Increases, Enhanced Permanent Benefit Increases, and Ad Hoc Increases. Indeed, 2006 was the first year in well over a decade that further increases were not made. Independent studies indicate that

ASRS benefits are among the best pension benefits in the country. One study indicates that the ASRS provided benefits that are between 15-20 percent higher than public plans in other states. The difference is even more favorable when compared to private pension plans.

Finally, the integrity of the financial reporting has been consistently commendable. Each year the ASRS has an external financial audit conducted of its financial operations. For the most recent period, the external auditor stated that the "basic financial statements present fairly, in all material respects, the net assets of the funds of ASRS as of June 30, 2006, and the changes in net assets of the funds for the year then ended in conformity with accounting principles generally accepted in the United States of America." In addition, the Government Finance Officers Association of the United States and Canada (GFOA) has awarded the ASRS a Certificate of Achievement for Excellence in Financial Reporting for 17 consecutive years.

In summary, the ASRS prudently and effectively manages over \$26 billion in investments and pays out to its retirees in excess of \$1.5 billion annually. In conducting this significant and complex operation decisions have consistently been made that have resulted in sound financial health, very favorable investment returns, a strong benefit system, and commendable financial reporting. These conclusions have been empirically demonstrated and independently validated. They are not mere opinions.

Paul Matson
Executive Director
Arizona State Retirement System

Investment News

The ASRS investment fund earned a rate of return for calendar year 2006 of 14 percent, well above the actuarially assumed rate of 8 percent. The ASRS portfolio, primarily a mix of U.S. stocks, international stocks, fixed income bonds, with some investments in real estate, stood at just over \$26 billion.

To learn more about ASRS investments, including specific asset class performance, visit the Investment section on our website.

ASRS Legislation

The 48th Session of the Arizona Legislature is underway with a number of bills introduced that deal with retirement issues. The ASRS has proposed several bills and provided information and analysis on others that are aimed primarily at improving services, producing savings that will help mitigate future increases in contribution rates and contribute to the overall stability of the ASRS trust.

You can view summaries of retirement-related legislation and track progress of bills through the Legislature by viewing the ASRS Bill Tracker, a document that is posted on our website and updated weekly.

To view additional provisions of this and other bills under consideration at the legislature, view the ASRS Bill Tracker, or visit the state legislature's website, www.azleg.gov.

ASRS Annual Report

The Arizona State Retirement System is pleased to release its Certified Annual Financial Report for the fiscal year 2005-06. The 122-page report provides detailed information on finances, investments, actuarial calculations and general statistics of the agency.

The report meets the standards and requirements for reporting as set forth by the Government Finance Officers Association of the United States and Canada. ASRS annual reports have received the GFOA Certificate of Achievement for Excellence in Financial Reporting for the past 17 years.

In keeping with the State of Arizona's emphasis on electronic business, and cost savings on printing, a limited number of the books were printed. To view the entire report, please visit the ASRS website at www.azasrs.gov

Educational meetings offered to inform, assist members

The Member Services Division of the ASRS conducts educational meetings available to all members. Whether you're newly hired and want to learn about the benefits available to you, or you're ready to retire and want assistance filling out your paperwork and making annuity selections, the ASRS has a meeting for you.

Know Your Benefits

This meeting is especially beneficial to new members. You'll learn about the many benefits of belonging to the Arizona State Retirement System, including a history and overview of the ASRS, how your pension is calculated and how to maximize your future benefit, member responsibilities, disability and survivor benefits, options should you leave ASRS employment, and more. Also covered will be the Service Purchase benefit, in which a member may purchase, under certain circumstances, time they worked under other qualified employer plans.

Getting Ready to Retire

This meeting is vital for members who are planning to retire within a year. You'll learn about your pension benefit and how it's calculated, options for retiree health insurance and other benefits, return to work options and more. Members who register for this meeting will receive a personal benefit estimate and assistance in filing out the proper paperwork.

Visit our website and click on the Calendars section to see a full listing. Reservations are required and can be made by calling the Member Service Advisory Center at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson, or (800) 621-3778 outside Phoenix and Tucson.

ASRS Board & Committee Meetings

ASRS Board of Trustees

Friday, March 16, 2007, 8:30 a.m. – ASRS Phoenix office, 3300 N. Central Ave., 10th floor Board Room.

Operations Committee

Thursday, March 22, 2007, 10:30 a.m. – ASRS Phoenix office, 3300 N. Central Ave., 14th floor.

Investment Committee

Wednesday, April 4, 2007, 5:30 p.m. – ASRS Phoenix office, 3300 N. Central Ave., 14th floor.

External Affairs Committee

Friday, April 6, 10 a.m. – ASRS Phoenix office, 3300 N. Central Ave., 14th floor.

Note: All Board & Committee meetings are open to the public and your attendance is encouraged. Schedules, agendas and minutes of meetings are posted on our website and are available at our Phoenix and Tucson offices.